CalPERS Long Term Care Program

Executive Summary

Prepared by:

United Health Actuarial Services, Inc.

Karl G. Volkmar, FSA, MAAA, FCA
Principal & Consulting Actuary

Clark A. Heitkamp, FSA, MAAA, LTCP
Consulting Actuary

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Background
United Health Actuarial Services, Inc. (UHAS) was retained by the California Public Employee Retirement System (CalPERS) Long Term Care (LTC) Program to perform an actuarial valuation of the program as of June 30, 2010 along with supporting analyses. Specifically, our assignment was to develop a projection of future cash flows and to evaluate the adequacy of current assets and premium levels based on those cash flows.

In December of 2009, the Board approved rate increases that were intended to make progress towards the financial goal of achieving a 10% margin by July 2018. Program experience would be reviewed during the 2014 valuation and any additional required corrective action(s) would be implemented in 2015.

The 2010 valuation utilized assumptions to reflect actual experience and a revised investment return of 6.38% provided by CalPERS investment staff. The previous five annual valuations assumed 7.79% for the expected investment return. The June 30, 2010 valuation report assumed shock lapses and voluntary reductions in benefits resulting from the 2010 rate increases, as appropriate.

Consistent with the 2010 annual valuation recommendations, we updated our annual valuation with September 30, 2010 data which effectively replaced the 2010 shock lapse and benefit reduction assumptions with actual experience.

Projection Results
The chart below summarizes the projected surplus/(deficit) as a percent of the present value of premiums for various key projection scenarios:

	Scenario	a	b	c
Valuation Projection Date	Valuation Discount Rate	Without 2010 Rate Increases	With 2010 Rate Increases	With 2010 Rate Increases, Decreasing Discount Rate to 5.5%
6/30/2009	7.79%	(32.60%)	NA	NA
6/30/2010	7.79%	(42.42%)	24.25%	(13.26%)
6/30/2010	6.38%	(86.52%)	(2.98%)	(18.85%)
9/30/2010*	6.38%	NA	(5.61%)	(22.38%)
9/30/2010**	6.38%	NA	0.10%	(16.90%)
9/30/2010**	7.79%	NA	29.16%	(11.20%)

* The fund balance used was the projected 9/30/2010 balance using the 6/30/2010 projection.
** The fund balance used was the actual 9/30/2010 balance.

Please note the shaded areas in the above chart indicate the “base case” scenarios for the two annual valuation reports. For the 2010 valuation report, we suggested that the projection with the deficit of (2.98%) be used for financial reporting purposes.

The first results column of the chart, “Scenario a”, does not reflect the rate increases approved in December of 2009 and implemented starting in July of 2010.

The “With 2010 Rate Increases” in the second column, “Scenario b”, reflects the currently approved premium rate increases and all associated assumptions. This scenario along with the next column, “Scenario c”, assumes that on-going 5 percent increases would apply to policyholders with LTC1, lifetime benefit period plans with built-in inflation protection beginning in 2011.

The last column, “Scenario c”, reflects the rate increase analysis-like assumption that the LTC Program portfolio will gradually shift its portfolio to something more consistent with that utilized in the LTC insurance industry (i.e., a more conservative mix of assets). The investment returns for this column is expected to annually decrease from the current level to a 5.5% level by July of 2018.

Conclusions
The following is a summary of our conclusions based on the various projections completed since the 2009 annual valuation:

- The CalPERS LTC Program projection results continue to show a deficits or breakeven results based on current assumptions, and thus fall short of the 10% margin goal by 2018. The results are reasonably consistent with our past projections.
- The positive asset experience since the 2009 valuation was more than offset by the change in projected discount rate from 7.79% to 6.38%.
- The updated September 30, 2010 results are relatively consistent with our June 30, 2010, so our key findings remain unchanged.
- Based on current projections, underlying assumptions, and Program goals, additional corrective actions would be recommended in 2014.

Recommendations
Given the results of these valuations and supporting analyses, we recommend:

- That we provide liability projections under various investment returns as requested by CalPERS investment staff to support the development of the investment strategy to reduce the volatility of Program financial results going forward; and,
- That we closely monitor emerging experience and report to CalPERS staff on a quarterly basis regarding actual versus projected experience.

Additional Information
Much additional relevant data/information is available for distribution and can be provided upon request.